MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2017/2018

PPE0054 – BASIC MACROECONOMICS

(Foundation in Business)

21 OCTOBER 2017
9.00 a.m. – 11.00 a.m.
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **NINE** pages.
2. Answer **ALL** questions in **Section A** and **B**.
3. The answers for **Section A** should be shaded on the OMR sheet. The answers for **Section B** should be written in the Answer Booklet.

SECTION A: MULTIPLE CHOICE QUESTIONS [30 MARKS]

Instructions: Answer **ALL** questions in this section. Shade the answers on the **OMR** sheet.

1. Mr. Raju is willing to loan RM20,000 if he can earn a real interest rate of 5 percent. Everything else remains constant, if the inflation rate is 2 percent, he would agree to loan the RM20,000 when the nominal interest rate is _____.
   A. 2 percent
   B. 3 percent
   C. 5 percent
   D. 7 percent

2. You earned RM30,000 in 2000, and your salary rose to RM80,000 in 2013. If the CPI rose from 82 to 202 between 2000 and 2013, which of the following is **TRUE**?
   A. There was a deflation between 2000 and 2013.
   B. Your real income fell between 2000 and 2013.
   C. Your real income increased between 2000 and 2013.
   D. Your real income remained constant between 2000 and 2013.

3. Suppose the working-age population of an economy falls into the following categories: 90 are retired or homemakers; 60 have full-time employment; 20 have part-time employment; 20 do not have employment, but are actively looking for employment; and 10 do not have employment and are not actively looking for employment. The official unemployment rate as calculated by this economy would be _____.
   A. (20/60) × 100
   B. (20/80) × 100
   C. (30/80) × 100
   D. (20/100) × 100

4. Suppose the government launches a successful advertising campaign that convinces workers with high school degrees to quit their jobs and become full time college students. This would cause _____.
   A. the unemployment rate to decrease
   B. no change in the unemployment rate
   C. the labour force participation rate to decrease
   D. the number of discouraged workers to increase

5. If the number of unemployed workers is 19 million, the number in the working-age population is 500 million, and the unemployment rate is 4%, how many workers are employed?
   A. 456 million
   B. 475 million
   C. 481 million
   D. 500 million

Continued...

6. The natural unemployment rate and the expected inflation rate are constant when moving along the _____, which shows a tradeoff between _____ and _____.
   A. aggregate demand curve; inflation; employment
   B. short-run Phillips curve; inflation; unemployment
   C. aggregate supply curve; inflation; unemployment
   D. long-run Phillips curve; inflation; unemployment

7. If the economy moves upward along its short-run Phillips curve, in the AS-AD diagram, this movement is shown by a _____.
   A. leftward shift of the AD curve
   B. rightward shift of the AD curve
   C. rightward shift of the AS curve
   D. rightward shift of potential GDP

8. Rita received a RM5,000 scholarship award from ABX corporation. She deposits her RM5,000 into a bank so that she can use the money next year to pay for her tuition fees. This is an example of money serving as a(n) _____.
   A. store of value
   B. unit of account
   C. investment good
   D. medium of exchange

9. Suppose that Bob had USD300 in traveller's cheques unused from his trip to America and he decides to deposit the cheques into his checking account. This transaction will _____.
   A. increase M1 and M2
   B. decrease M1 and M2
   C. keep M1 and M2 unchanged
   D. keep M1 unchanged and increase M2

10. Suppose that you deposit a RM10,000 into your checking account. If the required reserve ratio is 15 percent, this would increase your bank's _____.
    A. assets by RM1,500
    B. liabilities by RM10,000
    C. excess reserves by RM10,000
    D. required reserves by RM10,000

11. If Saiful withdraws RM100 from his checking account and the reserve requirement is 10 percent, then _____.
    A. the money supply can decrease by as much as RM1000, if banks hold no excess reserves
    B. the money supply can increase by as much as RM1000, if banks hold no excess reserves
    C. the money supply can decrease by as much as RM100, if banks hold some excess reserves
    D. the money supply can increase by as much as RM100, if banks hold some excess reserves

Continued...

12. Suppose that the interest rate available to you on a long-term bond is 3 percent. If you hold RM1,000 of your wealth in currency instead of in the form of a bond, the annual opportunity cost is _____.
    A. RM0.30
    B. RM3.00
    C. RM30.00
    D. RM300.00

13. Which of the following factors does **NOT** shift the demand curve for money?
    A. changes in real GDP
    B. changes in real income
    C. changes in the interest rate
    D. changes in the price level in the economy

14. Assume that the required reserve ratio is 25%. If the central bank buys $5 million worth of government bonds from the public, the maximum change in the money supply is _____.
    A. $125 million
    B. $1.25 million
    C. less than $5 million
    D. more than $5 million

15. An example of a central bank's action that increases the money supply is _____.
    A. a decrease in the discount rate
    B. an increase in the required reserve ratio
    C. the central bank selling bonds in the open market
    D. a law placing a ceiling on the maximum interest rate that banks can pay to depositors

16. Decreased in investment spending in the economy would be a possible result of _____.
    A. a decrease in interest rates
    B. an increase in the money supply
    C. a decrease in the required reserve ratio
    D. an open market sale of bonds by the central bank

17. Based on the model of the money market, when real GDP decreases, the equilibrium interest rate should _____.
    A. increase
    B. decrease
    C. stay the same
    D. cannot be determined

Continued...

18. Suppose there are only 2 nations, Atlantis and Pacifica that only produce two goods, surfboards and kayaks. If Atlantis produces only surfboards, it can make 50 per day. If Atlantis produces only kayaks, it can make 75 per day. If Pacifica produces only surfboards, it can make 75 per day. If Pacifica produces only kayaks, it can make 75 per day. When trade is allowed, _____ will specialise in the production of surfboards and _____ will specialise in the production of kayaks.
    A. Atlantis; Atlantis
    B. Pacifica; Pacifica
    C. Pacifica; Atlantis
    D. Atlantis; Pacifica

19. Which of the following is **TRUE**?
    i. Comparative advantage drives international trade.
    ii. Compared to a no-trade situation, imports make domestic producers better off.
    iii. Tariffs lower the price of imported goods.
    A. Only i
    B. Only ii
    C. Only iii
    D. i and iii

Refer to ***Exhibit 1*** for question no. 20.

	China	India
Soybeans	4	1
Lentils	1	4

Exhibit 1

20. Based on ***Exhibit 1***, which of the following statements is **NOT TRUE**?
    A. Specialisation and trade will benefit both countries.
    B. The two countries do not have mutual absolute advantage.
    C. India has an absolute advantage in the production of lentils.
    D. China has an absolute advantage in the production of soybeans.

21. Which of the following is common to both tariffs and quotas?
    A. Tariffs and quotas both increase economic efficiency.
    B. Tariffs and quotas are both examples of voluntary export restraints.
    C. Tariffs and quotas are both used as a means to increase government revenue.
    D. Tariffs and quotas are both designed to reduce foreign competition faced by domestic firms.

22. When a country imports a good, the _____ to consumers is _____ the _____ to producers.
    A. gain; equal to; loss
    B. gain; larger than; loss
    C. loss; larger than; gain
    D. loss; smaller than; gain

Continued...

23. With no international trade, the domestic price of wheat is lower than the world price of wheat in country A. This indicates that country A _____ a comparative advantage in the production of wheat and with international trade, country A will _____ wheat.
    A. has; import
    B. has; export
    C. has; not trade
    D. does not have; export

24. If an American firm earns profits while operating a business in London, then the value of the profit is entered as a _____ in the U.S. _____ account.
    A. positive value; current account
    B. negative value; capital account
    C. negative value; financial account
    D. negative value; current account

25. When a Malaysia company makes a RM200,000 donation to help the victims of an earthquake in Aceh, the transaction is recorded in the _____.
    A. capital account
    B. current account
    C. transfer account
    D. investment account

26. Suppose in 2012, the U.S. current account balance was -$706 billion, net interest was $119 billion, net transfers were -$128 billion, and exports were $1,827 billion. Therefore, imports were _____.
    A. $1,112 billion
    B. $1,121 billion
    C. $1,818 billion
    D. $2,524 billion

27. If the current account balance has a RM100 million deficit and there was no change in official reserves during that year, then we know that _____.
    A. the capital account balance must have a RM100 million surplus
    B. the capital account balance must have a RM100 million deficit
    C. the balance of payments must register a RM100 million surplus
    D. the official settlements account balance must have a RM100 million surplus

28. If the price of watermelons is 5 pesos in Argentina and the exchange rate is 4 pesos per dollar, then what is the dollar price of watermelons?
    A. $0.75
    B. $0.80
    C. $1.25
    D. $2.00

Continued...

29. An increase in Swiss interest rates will cause _____.
    A. a decrease in the supply of U.S. dollars and an increase in the exchange rate of Swiss francs per dollar
    B. an increase in the supply of U.S. dollars and a decrease in the exchange rate of Swiss francs per dollar
    C. a decrease in the demand for U.S. dollars and a decrease in the exchange rate of Swiss francs per dollar
    D. an increase in the demand for U.S. dollars and an increase in the exchange rate of Swiss francs per dollar

30. If the Bank Negara Malaysia set a fixed rate against U.S dollar and this has caused Ringgit Malaysia to be undervalued, what can the Bank Negara Malaysia do to maintain the fixed rate?
    A. No action can be taken
    B. Sell dollar in the foreign exchange market
    C. Buy Ringgit Malaysia in the foreign exchange market
    D. Sell Ringgit Malaysia in the foreign exchange market

SECTION B: STRUCTURED QUESTIONS [70 MARKS]

Instructions: Answer **ALL** questions in this section. Write your answers in the Answer Booklet.

Question 1

A country has a working age population of 2,000,000. The size of the labour force is 1,600,000. Assume that the citizens of this country will solely base on their calculations on the current inflation rate to determine the inflation rate for the next 12 months. ***Exhibit 2*** shows the information on consumer price index (CPI) and unemployment rate for this country over a five-year period.

Year	CPI	Unemployment rate
2000	100	4.2%
2001	106	4.5%
2002	115	10.1%
2003	120	5.5%
2004	124	6.8%

Exhibit 2

Based on ***Exhibit 2***,

a) calculate the labour force participation rate in this country.

(2 marks)

b) calculate the number of workers unemployed in 2001 and 2002?

(4 marks)

Continued...

c) suppose that the increased of unemployment rate from 2001 to 2002 was caused by recession, briefly explain the policies that can be adopted to reduce the unemployment rate?

(6 marks)

d) calculate the inflation rate in 2004. (2 marks)

e) in 2004, the nominal interest rate was 4.03%. What was the real interest rate in 2004? (2 marks)

f) suppose that a citizen of this country earned nominal income of $60,000 during 2003 and $64,000 during 2004. What was his/her real income in 2003 and 2004? Has his/her real income increased or decreased within that period?

(4 marks)

[TOTAL 20 MARKS]

Question 2

Part A

Exhibit 3 shows the T accounts for Affin Bank. Assume that banking system is fully loaned up.

Affin Bank
Balance Sheet

Assets		Liabilities	
Reserves	RM12,000	Deposits	RM80,000
Loans	RM68,000		
	RM80,000		RM80,000

Exhibit 3

a) If the required reserve ratio is 5%, how much is the bank required to hold as reserves given its deposit of RM80,000?

(2 marks)

b) How much is its excess reserve? (2 marks)

c) From your answer in part (b), how much will be the total expansion of loans?

(3 marks)

d) If the central bank would like to increase the money supply by RM400,000 given its deposit of RM80,000, how much does the central bank need to buy or sell bond to meet this mission? (4 marks)

e) Suppose that the excess reserve from part (b) is being loaned to Jenny, who then deposits the money into MayBank. Prepare a balance sheet for Maybank solely based on Jenny's deposit to indicate the total deposits, required reserve and excess reserve. (4 marks)

Continued...

Part B

In Minesland, the interest rate is 4 percent a year. Suppose that the real GDP increases to $50,000 billion and the quantity of money remain unchanged.

a) At the initial interest rate of 4%, what happened to the money market in Minesland when the real GDP increases to $50,000 billion? (2 marks)

b) How will the people in Minesland react to the situation that you mentioned in part (a)? And how does it affect the interest rate in the money market? (4 marks)

c) What should the central bank do if the central bank would like to maintain the interest rate at 4%? Briefly explain. (4 marks)

[TOTAL 25 MARKS]

Question 3

Part A

Janet can produce 30 pies or 300 cakes an hour. Patty can produce 50 pies or 100 cakes an hour.

a) Draw a graph of Janet's and Patty's production possibilities frontier (PPF) with pies on the vertical axis and cakes on the horizontal axis. (5 marks)

b) Calculate Janet's and Patty's opportunity cost of producing a pie. (2 marks)

c) Who has a comparative advantage in producing pie? (1 mark)

d) Calculate Janet's and Patty's opportunity cost of producing a cake. (2 marks)

e) Who has a comparative advantage in producing cake? (1 mark)

f) When they specialised and trade, and agree to exchange 1 pie for 6 cakes. The one who specialised in producing cakes would like to trade 60 cakes for some pies. Compute the consumption bundles of pies and cakes for Janet and Patty. (4 marks)

Continued...

Part B

Suppose that yesterday, the Canadian dollar (C$) was trading on the foreign exchange market at US$0.70 per C$. Today, the Canadian dollar is trading at US$0.75 per C$.

a) Which of the currency has appreciated and which has depreciated today?
(2 marks)

b) List **TWO** events that could have caused today's change in the value of the Canadian dollar on the foreign exchange market.
(2 marks)

c) If the central bank of Canada would like to fix the value of the Canadian dollar at US$0.70, has the Canadian dollar overvalued or undervalued at today's rate? Why?
(2 marks)

d) From your answer in part (c), what happen to the balance of payment in Canada? Briefly explain.
(2 marks)

e) What action would be taken by the central bank of Canada to maintain the fixed rate at US$0.70 per C$?
(1 mark)

f) In part (e), what is the effect of the Canadian central bank's action on Canadian official reserves? (1 mark)

[TOTAL 25 MARKS]

End of Paper